



# Transportation Debt Affordability

*Presented by T. Vance Holloman*

February 26, 2013



North Carolina Department of State Treasurer  
State and Local Government

*Learn. Invest. Grow. Prosper.*

# Debt Affordability Advisory Committee

## Background

The Committee is legislatively directed to:

- Annually advise the Governor and the General Assembly of the estimated debt capacity of the General Fund for the upcoming ten years
- Annually advise the Governor and the General Assembly of the estimated debt capacity of the Transportation and Transportation Trust Funds for the upcoming ten years
- Recommend other debt management policies it considers desirable and consistent with the sound management of the State's debt



Study makes no recommendations regarding the use of available debt capacity.

Study is due February 1.



# Debt Affordability Advisory Committee

---

## Members of the Debt Affordability Committee

- Janet Cowell, State Treasurer
- Art Pope, State Budget Officer
- Lyons Gray, Secretary of Revenue
- Beth Wood, State Auditor
- David McCoy, State Controller

## Senate Appointees

- Frank Aikmus
- William Graham

## House Appointees

- James Porto
- Jack Vogt



# Review: What is Debt Affordability?

The amount of debt that may be prudently authorized and issued in a given period *without* negatively affecting the credit position or impairing the budget flexibility of the issuer.

- The amount of debt that is affordable (“capacity”) is finite
- Capacity can be measured and compared
- Issuance beyond a prescribed level can erode credit ratings
- The State measures its available capacity using **tax-supported debt**



# Transportation Debt Affordability

- Highway and Highway Trust Fund capacity combined
- All State-level transportation revenues used (DOT projection)
- Federal revenues, toll revenues (and any related toll-supported debt) and GARVEES are excluded
- “GAP Funding” for debt service on NCTA projects (\$64-\$112 million/year) included
- Guideline adopted: amounts used for transportation-related debt support should not exceed 6% of the State’s transportation revenues
- Transportation obligation debt support is projected to exceed the 6% limit in FY 2014, therefore no capacity until that time.



# Outstanding Transportation Debt by Type at 6/30/12

<b>Tax-Supported Debt*</b>	<b>(millions)</b>
Highway Fund Supported GO Bonds	\$408.1
“GAP Funding” Supported NCTA Revenue Bonds	\$811.1
“Availability Payments” (total of payment amounts)	<u>\$12.6</u>
<b>Total Transportation Tax-Supported Debt</b>	<b>\$1,231.8</b>
<b>Non Tax-Supported Debt</b>	<b>(millions)</b>
GARVEEs (Grant Anticipation Revenue Vehicle Bonds)	\$657.6
Toll-Supported NCTA Revenue Bonds (includes TIFIA loan)	<u>\$621.6</u>
<b>Total Transportation Non Tax-Supported Debt</b>	<b>\$1,279.2</b>
<b>Total Transportation Debt</b>	<b><u>\$2,498.4</u></b>

\* Tax-supported debt includes debt supported by state (not federal) highway revenues, for example motor fuels tax and vehicle registration fees.



# Transportation Funds Used to Support Debt

(millions)

	2013	2014	2015
Debt Service (GOs)	\$81.5	\$79.2	\$60.3
GAP Funding	\$81.5	\$112.0	\$112.0
Availability Payments			\$7.0
Total	\$163.0	\$191.2	\$180.8





# Peer States Transportation Debt Comparisons

State	Ratings (Fitch/S&P/Moody's)	Maturity	DS % Tran. Revenues
Florida	AA+/AAA/Aa1	20	6.0%
Georgia	AAA/AAA/Aaa	20	21.0%
Kentucky	AA-/AA-/Aa2	20	12.1%
Missouri	AAA/AAA/Aaa	20	6.7%
<b>N. Carolina</b>	<b>AAA/AAA/Aaa</b>	<b>20</b>	<b>4.3%</b>
S. Carolina	AAA/AA+/Aaa	15	10.8%
Tennessee	AA+/AA+/Aa1	N/A	0.0%
Texas	AA+/AA/Aa1	20	5.9%
Virginia	AAA/AAA/Aaa	25	3.8%
2013 data for NC	Median		6.0%





# February 1, 2013 DAAC Study

## Transportation Results (millions)

	2013	2014	2015
Total Capacity	\$0.0	\$107.8	\$235.0
Actual Ratios	4.3%	6.1%	5.4%
Debt Service in Excess of Limit	\$0.0	\$2.3	\$0.0
Additional Revenues Necessary to Meet Limitation	\$0.0	\$46.0	\$0.0



# 2013 DAAC Other Recommendations

- State should maintain its historically conservative debt management practices, including:
  - Centralized authorization, issuance and management of debt
  - Inclusion of all debt and debt-like obligations in calculations
- Committee found that centralized debt management is a best financial management practice and should be embraced by the State as a matter of policy.
  - GA encouraged to adopt language regarding ability of agencies to independently enter into alternative financings that may include debt and debt-like obligations



# Transportation Debt Funding

## GARVEES

- Supported solely by federal \$ (NO State back up)
- 4 issues \$ 855 million provided funding for 49 projects, including Yadkin River Bridge and Monroe Bypass
- Program capacity +/- \$1 billion
- Fed reauthorization key
- Current Ratings: A+ (Fitch)/AA-negative outlook (S&P)/Aa3-negative outlook (Moody's)

## GAP Funding

- Budget authorization for up to \$112 million per year to “pay debt service or related financing costs” for various NCTA projects including Mid Currituck Bridge and Garden Parkway
- NCTA maximizes the amount of debt issued supported by these \$



# Transportation Debt Funding (cont.)

## Public Private Partnerships

- No Standard
- Each agreement has individual terms and must be analyzed as to the obligations of the State/private party
- Most analysts recognize P3s as form of alternative, not necessarily cheaper, financing
- Does not create additional debt capacity

## “Availability Payments”

- Represents contractor provided financing similar to installment purchase contracts. Counts as debt for capacity calculations.



# Transportation debt and role of LGC

GARVEEs

State Issues, LGC approves

NCTA Revenue Bonds

NCTA Issues, LGC approves

I-77 Public Private Partnership

LGC approves (see below)

- Legislation provides that any arrangement that commits DOT to make payments for capital costs more than 18 months after completion of construction must be approved by the LGC.
  - Like “availability payments”, payments made over an extended period may represent a debt-like instrument
- LGC approves “conduit” debt



# NCTA Gap Funding

---

Triangle Expressway	\$25 million per year
Monroe Connector	\$24 million per year
Mid Currituck Bridge	\$28 million per year
Garden Parkway	\$35 million per year
Total	\$112 million



# Monroe Connector Debt

Total Plan of finance approximately \$725 million

No Toll-Supported Debt Issued

Appropriation-supported (“Gap Funding”) debt \$477.1 million

GARVEEs used as “interim funding vehicle) \$160.0 million

NCDOT STIP and matching GARVEE funds \$ 88.0 million

Amount spent = \$46 million (GARVEEs and cash)





# Monroe Connector Debt (cont.)

---

Appropriation-supported (“Gap Funding”) debt proceeds can be used on any NCTA project

GARVEE Bond proceeds can be used on any projects approved for GARVEE funding

LGC approved Monroe Connector debt only after being assured that proceeds could be used on other projects



# Transportation Debt Issues

---

Capacity

Legal Challenges

Feasibility

Design/Build or Design/Build/Finance

Permitting

Traffic and Revenue Projections





**Thank you!**

*Together, we can build and maintain a fiscally strong and prosperous North Carolina.*

**[www.NCTreasurer.com](http://www.NCTreasurer.com)**



**North Carolina Department of State Treasurer**  
*State and Local Government*

*Learn. Invest. Grow. Prosper.*